

Director of Central Intelligence

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National Intelligence Estimate

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Brazil: Prospects for the Regime

Key Judgments

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25 April 1984*

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**BRAZIL: PROSPECTS
FOR THE REGIME**

KEY JUDGMENTS

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, the Federal Bureau of Investigation, and the intelligence organizations of the Departments of State and the Treasury.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army

The Director of Naval Intelligence, Department of the Navy

The Assistant Chief of Staff, Intelligence, Department of the Air Force

The Director of Intelligence, Headquarters, Marine Corps

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SCOPE NOTE

Brazil—as well as efforts to understand what may happen there—is probably gripped by greater uncertainty today than at any other time since the military took power 20 years ago. Most observers expected that some uncertainty would characterize the period during which the Brazilian military transferred control over the political process back to civilians. No one realized, however, that this would happen at the same time that Brazil was in the throes of its greatest economic crisis since the 1930s. ☐

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As a result, the Brazilian Government confronts a variety of forces that have placed it under tremendous stress. This Estimate measures and delineates this stress, assesses what chances the government has for coping successfully with it, estimates what kinds of outcomes may occur over the next year or so, and indicates what these outcomes may mean for Brazil and US-Brazilian relations. ☐

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The US stake in whether Brazil makes it successfully through these twin challenges is high. On the economic side, how well Brazil manages its foreign debt—the largest among developing countries, at \$93 billion by yearend 1983—has consequences for the well-being of the international financial system. The direct economic implications for the United States are also large, because US banks hold nearly one-fourth of this debt, and US exports to this extremely important market are in sharp decline. On the political side, it would be a major positive gain for the United States and other democratic nations if the sixth most populous country in the world successfully completed the next-to-last stage in the transition to an open, democratic regime, and a major loss if Brazil returned to repressive military rule or encountered severe political instability. ☐

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KEY JUDGMENTS

The Brazilian Government is faced with two primary challenges over the next year: managing an ailing economy and holding elections for the first civilian president in two decades. In this last year of transition from military to civilian rule, attention will be focused on three central issues:

- The economic prognosis and specifically whether Brazil makes enough progress toward its IMF-mandated retrenchment goals to be eligible for sufficient external funds to get through the next year.
- What rules will govern the presidential election, what are the chances of the most likely candidates, and whether it makes much difference as to which candidate wins.
- The extent to which economic developments are likely to affect politics—specifically, what are the prospects for major political instability, including cancellation of elections, reinstitution of military rule, or massive social protests.

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Prospects for the Economy

After 16 years of growth the Brazilian economy has shrunk about 8.5 percent in the last three years. Inflation reached over 200 percent in 1983, and an estimated 25 percent of the labor force had no jobs or were only marginally employed. Brazil's international financial relations are also in difficult straits. By the end of 1983, Brazil had accumulated \$2.6 billion in interest payment arrearages and only narrowly avoided having its US bank loans classified as "nonperforming."

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As the economy has slipped, public confidence in the competence of Brazil's military and technocratic leaders has declined sharply. Complaints have particularly centered on President Joao Baptista de Oliveira Figueiredo's erratic behavior and failure to lead; on the poor quality of decisions and of management emanating from most other high government officials; and on the bloated, unresponsive nature of the public sector—especially the state enterprises.

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Because of the Figueiredo administration's shortcomings, few Brazilians expect it to accomplish much in its remaining year in office. There is virtually no expectation, for example, that the government will succeed in restoring growth. At the most, hopes seem to be centered

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around the possibility that inflation will drop somewhat and the rate of decline of the economy will slow from the approximately 5-percent drop last year. The international financial community's expectations of the government's performance are not much higher. [REDACTED]

[REDACTED] we agree, that Brazil will need new money—perhaps on the order of \$2 billion more—before the year is over. An alternative view holds that Brazil will not have to secure additional funding for 1984. The holder of this view believes, however, that Brazil will have to return to the market late in the year to arrange bank financing for 1985 on the order of \$3-4 billion.¹ [REDACTED]

In our judgment, the fact that these expectations are modest is a good sign that Brazil will be able to maintain political stability at home and obtain adequate financial support from abroad. It means that there is a reasonable chance that most groups within Brazil will continue to cooperate with the austerity program, although very grudgingly, and that foreign financial circles will continue to fund Brazil, even if very reluctantly. For both audiences, decisions about whether to continue to support the Brazilian Government's economic program will revolve more around perceived progress toward meeting 1984 economic goals than on actually attaining mandated or promised goals. For domestic groups, the primary economic indicator of how well Brazil is doing will probably be monthly inflation figures. If they drop to single-digit figures and remain there, we believe there will be a widespread perception that Brazil has turned the corner economically and that the future will be better, even if not in 1984. [REDACTED]

For the foreign financial community, the main focus is whether Brazil can earn enough foreign exchange to pay at least the interest on its loans in 1984. The key that will be watched here is monthly figures on the trade surplus. If, in 1984, Brazil can significantly increase its exports (the target is by 14 percent over 1983) and can hold imports almost level, then the IMF and foreign bankers are likely to believe that Brazil's economy can eventually grow enough to enable it to manage its foreign borrowing needs successfully. This assumes that no adverse external events occur, such as a rise in interest rates or the price of oil. [REDACTED]

We believe the chances are reasonably good that Brazil will make significant progress toward meeting its 1984 economic goals, although it will probably not fully achieve any of them. Inflation, for example, is likely to be at least 150 percent—not down to the recently revised government target of 130 percent but a substantial enough improvement to persuade Brazilians to stick with the austerity program.

¹The holder of this view is the Special Assistant to the Secretary for National Security, Department of the Treasury. [REDACTED]

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Similarly, Brazil is likely to run a healthy enough trade surplus during the year to hold the current account deficit to close to the 1983 deficit of about \$6 billion, somewhat higher than the \$5.3 billion target set by the government. Prospects for exports are continuing to improve because of the foreign economic recovery and because the agricultural harvest, especially for soybeans (the main farm export), will probably be much better than in 1983. Still, growing foreign protectionism and sluggish commodity prices will make a 14-percent export growth target not easy to achieve. Whether Brazil can fully reach its target for imports by not permitting them to expand much beyond last year's level is also doubtful. Even with a good harvest there will be increased pressure during an election year to maintain an adequate food supply and, since Brazilian exports have a relatively high import content, more imports than planned may be necessary to prevent industrial material shortages.

Given the uncertainties surrounding these projections, we believe there is a small but not insignificant chance that Brazil's economic performance will be considerably worse than outlined above. In such case, a confrontation would almost certainly occur between Brazil and the IMF, with the IMF possibly demanding additional austerity measures before it would help to reschedule mounting debt or approve new loans. In this circumstance, the Figueiredo administration might attempt simultaneously to placate international bankers by trying to tighten fiscal and monetary austerity and lessen domestic political opposition by replacing the government's economic team. Nationalistic sentiments would be so aroused by a new collision with the IMF and the political atmosphere so heated up by the presidential election campaign, however, that it is doubtful that additional austerity measures, such as new wage restraints, would be accepted by the Brazilian business and political elites.

Even under these circumstances, we doubt that the government would formally break with the IMF and declare a moratorium on debt payment, although such a situation might have come into de facto existence as interest arrearages mounted. The most likely outcome of this situation, in our view, is that the Brazilian Government and the international financial community would use the coming change of administration to postpone resolution of the issues dividing them and that some sort of temporary rescue package, possibly involving the direct intervention of major Western governments, would be put together to prevent Brazil's US loans from being placed in a "nonperforming" category at the end of 1984.

The Presidential Succession

The Brazilian Constitution mandates the indirect election of the president. Despite widespread clamor by the public and by opposition

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political parties for direct elections, we doubt that the Brazilian Congress will muster the two-thirds vote necessary to change these electoral rules substantially. We believe this will not happen because the military appears to be unalterably opposed to opening up the political system that far at this point. It fears in particular that direct elections would permit a leftist politician, such as Leonel Brizola (now Governor of Rio de Janeiro), to become president. We believe that the public and political opposition will be disappointed if direct elections are rejected, but most will continue to concur in the indirect procedure as an acceptable next step in restoring civilian rule. []

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The chances are good, therefore, that the next president will be chosen indirectly by an electoral college. As a consequence, however, of Figueiredo's weak leadership and the insistence by the progovernment Social Democratic Party (PDS) members that they will make their own decision, Figueiredo has lost the power to impose his successor. With an overall majority in the electoral college, the PDS will retain the inside track for selecting the president if it can unify behind a single candidate during its September 1984 nominating convention. []

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There is some doubt, however, that the PDS can achieve the necessary degree of unity actually to select a winning candidate. Three candidates have announced for the PDS nomination. The most favored, at this point, appears to be Paulo Maluf, an aggressive PDS federal deputy and successful businessman from Sao Paulo. Maluf is disliked by President Figueiredo, in part because he did not wait for the President's nod before he began campaigning, and Figueiredo so far has refused to support him. []

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The second candidate is Interior Minister Mario Andreazza, a retired colonel. Andreazza is the preferred choice of Figueiredo, an old comrade-in-arms, and he has support from important PDS political bosses [] Nonetheless, Figueiredo has not come out publicly in his favor, possibly because he doubts Andreazza can win, because his image as a throwback to the worst of old-fashioned politics harms him among government supporters, including those within the military. []

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Vice President Aureliano Chaves has also recently launched his candidacy for the PDS nomination. He is respected as a competent, if somewhat colorless, administrator and is generally liked in military, government, and business circles for the effective performance he turned in as Acting President on the two occasions when Figueiredo was ill. He is perceived as the most honest of the candidates, which makes him popular among the general public but does not help him with PDS party bosses. He has also gained in popularity as the only candidate who supports a change to direct elections. []

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If the opposition political parties do not succeed in their drive for direct elections, they probably will attempt to take advantage of President Figueiredo's unhappiness with the struggle for power going on in the PDS to persuade him to support a "consensus" candidate for the presidency. The major possibility at present for such a consensus candidate is the Governor of Minas Gerais, Tancredo Neves. Neves leads the moderate wing of the major opposition party and is widely respected in all the places that count, including the military. A second possible consensus candidate is Vice President Chaves, if he is denied the PDS nomination and a legal stratagem can be found to permit his nomination by an opposition party.

With respect to the way in which presidential politics will unfold in the remainder of 1984, however, it probably will make little difference which of the possible candidates are actually nominated by their parties. The positions of all the announced candidates or likely winners are very similar. Virtually all of them, for example, are stressing that Brazil needs to renegotiate its foreign debt on easier terms if economic recovery is ever to happen. None of them is proposing, or is likely to propose, permanently breaking with the IMF, although if economic circumstances worsened considerably, all of them might call for a temporary and conditional moratorium on debt repayment if only as a negotiating tactic. Any candidate with a serious chance to win is likely to be relatively restrained in his criticism of the United States, even if relations with the IMF become difficult, because they would all probably perceive the United States as the only actor that might be able to put together a rescue package that would enable them to avoid having to take office with Brazil ineligible to receive additional international loans.

The Likelihood of Significant Instability

In our estimation, social unrest is likely to rise during the next year, but not to the level that it will threaten the government's ability to maintain order or to conduct the presidential election. Virtually all groups in Brazil believe they have a significant stake in seeing the election take place and a civilian president take office; and the military is eager to put down the burdens of ruling and return to essentially professional pursuits. In addition, one main aspect of the political culture that has continued even through three years of recession is a relatively low level of political intensity among virtually all groups in the society. In the past, this has led to a high level of tolerance for imperfect regime performance and a tendency not to translate personal aspirations or disappointments into organized political demands.

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An alternative view, while in agreement with the conclusions of this Estimate, holds that it does not give due emphasis to the risk of serious political turmoil this year in Brazil. According to this view, the growing public campaign for direct presidential elections has heightened the intransigence of both the military and the opposition, and it could delay the negotiation of a political compromise. The holders of this view note, moreover, that a further rise in international interest rates may undermine Brazil's commitment to the IMF-mandated austerity program. Failure to resolve the succession controversy soon, coupled with the necessity of renegotiating the IMF rescue package, could, in their view, lessen the chances for an orderly transition to civilian rule.² []

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There are few signs that any of the groups in the society, including politicians, business, labor, the middle class, or the left, are successfully undertaking new kinds of organizational initiatives or developing a new class of leaders that might threaten to overturn these values. The extreme left, for example, which has always been small and weak, seems at a complete loss as to how to take advantage of an ostensibly fertile environment for growth of its influence. What little evidence exists of the attitudes of Cuba and the USSR toward Brazil indicates that neither sees much hope of stimulating significant popular agitation against the Brazilian regime any time soon. []

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Some possibility for regime-threatening agitation may occur, however, during the tenure of Figueiredo's successor. If the economy does not recover because another world economic slump or round of tight money policies frustrates even Brazil's best readjustment efforts, or domestic political pressures prevent the new president from bringing about structural changes necessary for restoring growth, then the basic values of the political culture could eventually change. A move to shorten the scheduled six-year term of the new president and choose a new one through direct, popular vote could delay major instability. But if decisionmaking stalemate continued and political chaos ensued, the chances would rise steadily for a return to military rule sooner or later.

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Relations With the United States

US-Brazilian relations have steadily improved over the last two years or so as Brazil has perceived that the United States is treating it as a mature negotiating partner on a wide range of commercial, nuclear, technological, military, and other matters. Moreover, Brazilian attitudes at the popular and elite levels have remained generally favorable

² The holders of this view are the Deputy Director for Intelligence, Central Intelligence Agency; the Director, National Security Agency; and the Assistant Director, Intelligence Division, Federal Bureau of Investigation. []

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toward the United States even as frictions with the IMF and international bankers have developed, because the government and many in the private sector perceive the US Government as essentially an ally thus far in their attempts to negotiate debt relief, obtain new money, and, despite many commercial frictions, expand exports. []

We believe continuation of good, if sometimes frank, relations will probably persist as long as Brazilians continue to believe that the US Government is doing its best to contain protectionist pressures in the United States, is encouraging the IMF and the banks to be as forthcoming as possible, and is not perceived as attempting to undermine the independent foreign policy Brazil has been following. We believe opportunities to expand relations with the Brazilian armed forces will be especially good if the United States can respond to their professional needs after they reduce their political role. []

The one area where Brazilian-US relations could most likely become more strained over the course of the next year or so involves Brazil's continued need for IMF support, particularly if its economic performance falls noticeably short of meeting IMF goals. Before and, especially, after the election, there will probably be increased pressure on the United States to support Brazilian requests for a major restructuring of Brazil's debt. These pressures will become very insistent if Brazil fails to recover economically because of events over which it has no control, such as increased oil prices, or a rise in US interest rates or protectionism []

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